JUDGE MARRERO

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

07 CIV 7897

DENIS ROY GONSALVES, on behalf of himself and all others similarly situated, Plaintiff, -v- GARRETT THORNBURG, LARRY A. GOLDSTONE, CLARENCE G. SIMMONS, ANN-DRUE M. ANDERSON, DAVID A. ATER, JOSEPH H. BADAL, ELIOT R. CUTLER, MICHAEL B. JEFFERS, IKE KALANGIS, OWEN M. LOPEZ, FRANCIS I. MULLIN, III, STUART C. SHERMAN and THORNBURG MORTGAGE, INC., Defendants.	Civil Action No.: __________ **CLASS ACTION COMPLAINT** **JURY TRIAL DEMANDED**

CLASS ACTION COMPLAINT

Plaintiff, individually and on behalf of all others similarly situated, by his attorneys, alleges the following based on the investigation of his counsel, except as to allegations specifically pertaining to plaintiff and her counsel, which are based on personal knowledge. The investigation of counsel is predicated on, among other things, a review of the public filings by Thornburg Mortgage, Inc. ("Thornburg Mortgage" or the "Company") with the United States Securities and Exchange Commission ("SEC"), press releases issued by the Company, media reports about the Company, and publicly available trading data relating to the price and volume of Thornburg Mortgage's securities. This is a securities fraud class action on behalf of all those who purchased Thornburg Mortgage's publicly traded securities between April 19, 2007 and August 14, 2007 (the "Class Period"), against Thornburg Mortgage and certain of its officers and

directors and underwriters for violations of the Securities Exchange Act of 1934 (the "1934 Act").

FACTUAL BACKGROUND

1. Thornburg Mortgage is a leading single-family residential mortgage lender focused principally on the jumbo segment of the adjustable-rate mortgage market.

2. Like other mortgage lenders, Thornburg Mortgage faced a downturn in the housing market and increasing delinquencies among borrowers. Defendants, however, caused or allowed Thornburg Mortgage to issue statements explaining that its earnings would remain stable because of its unique business model and successful business strategies.

3. But beginning on August 10, 2007, a series of shocking disclosures revealed that Thornburg Mortgage was not unique and had been facing substantial problems as a result of the mortgage market downturn. In particular, the market learned that, Thornburg Mortgage was in fact facing a liquidity crisis as a result of the margin calls on its mortgage assets. On August 14, 2007, Thornburg Mortgage shocked the market by issuing a series of disclosure. In particular, Thornburg Mortgage reported in a press release that the book value of the Company's mortgage securities portfolio had fallen to $14.28 per share as of August 13 from $21.23 on August 9, 2007. Indeed, on August 20, 2007, Thornburg Mortgage was forced to announce that it was selling over $20.5 billion worth of its mortgage-backed securities at a $930 million loss to cure these liquidity issues.

4. Currently, Thornburg's credibility with investors is in shambles.

5. As a result of the defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's common stock, Plaintiff and other Class Members have suffered significant losses and damages.

JURISDICTION AND VENUE

6. The claims asserted herein arise under §§ 10(b) and 20(a) of the 1934 Act, 15 U.S.C. §§ 78j(b) and 78t(a), and Rule 10b-5, 17 C.F.R. § 240.10b-5. Jurisdiction exists pursuant 28 U.S.C. §§ 1331 and 1337, and Section 27 of the 1934 Act, 15 U.S.C. § 78aa, and 28 U.S.C. § 1331.

7. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the dissemination of materially false and misleading information, occurred in substantial part in this Judicial District.

8. Defendants used the instrumentalities of interstate commerce, the U.S. mails and the facilities of the national securities markets in connection with the wrongful activity alleged herein.

PARTIES

9. Plaintiff purchased shares of Thornburg Mortgage stock during the class period as set forth in the accompanying certification.

10. Thornburg Mortgage is a Maryland corporation with its principal place of business at 150 Washington Ave, Santa Fe, New Mexico. At all relevant times, the Company's securities traded in an orderly and efficient market on the New York Stock Exchange (NYSE).

11. Defendant Garrett Thornburg, ("Thornburg") founded the Company in 1993 and at all relevant times has served as the Chairman of the Board of Directors and Chief Executive Officer.

12. Defendant Larry A. Goldstone ("Goldstone") has served as President, Chief Operating Officer and a director of TMI since June 1993.

13. Defendant Clarence G. Simmons ("Simmons") has served as the Senior Executive Vice President of TMI since March 2005 and the Chief Financial Officer of TMI since April 2005.

14. Defendant Ann-Drue M. Anderson ("Anderson") has served as a director of TMI since December 2003.

15. Defendant David A. Ater, ("Ater") has served as a director of TMI since March 1995.

16. Defendant Joseph H. Badal, ("Badal") has served as a director of TMI since June 1993 and has been an Executive Vice President since December 2001.

17. Defendant Eliot R. Cutler ("Cutler") has served as a director of TMI since December 2003.

18. Defendant Michael B. Jeffers ("Jeffers") has served as a director of TMI since January 2006.

19. Defendant Ike Kalangis ("Kalangis") has served as a director of TMI since January 2001.

20. Defendant Owen M. Lopez ("Lopez") has served as a director of TMI since December 1996.

21. Defendant Francis I. Mullin III ("Mullin") has served as a director of TMI since January 2001.

22. Defendant Stuart C. Sherman ("Sherman") has served as a director of TMI since June 1993.

23. Defendants Thornburg, Goldstone, Simmons, Anderson, Ater, Badal, Cutler, Jeffers, Kalangis, Lopez, Mullin and Sherman are sometimes collectively referred to herein as

the "Individual Defendants." The Individual Defendants, because of their positions within the Company, possessed the power and authority to control the content of Thornburg Mortgage's reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, i.e., the market. Each defendant was provided with copies of the Company's reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them, each of these defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and misleading. The Individual Defendants are liable for the misleading statements pleaded herein, as those statements were each "group-published" information, the result of the collective actions of the Individual Defendants.

CLASS ACTION ALLEGATIONS

24. Plaintiff brings this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and 23(b)(3) on behalf of a class (the "Class") consisting of all persons who purchased or otherwise acquired Thornburg Mortgage securities issued between April 19, 2007 and August 14, 2007. Excluded from the Class are Defendants, the officers and directors of the Company, members of their immediate families and their legal representatives, heirs, successors, and assigns, and any entity in which Defendants have or had a controlling interest.

25. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to plaintiff at this time and can only be ascertained through appropriate discovery, as of August 8, 2007 there are over 122 million shares of common stock outstanding.

26. Plaintiff's claims are typical of the claims of the other members of the Class in that all members of the Class have been damaged by the acts of Defendants, which caused members of the Class to purchase Thornburg Mortgage stock at artificially inflated prices.

27. Plaintiff will fairly and adequately protect the interests of the other members of the Class. To assist her in that endeavor, plaintiff has retained counsel competent and experienced in class and securities litigation. Plaintiff is not aware of any interest she holds which is antagonistic to the interests of the Class.

28. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) Whether the Securities Act and Exchange Act were violated by Defendants' acts, as alleged herein;

(b) Whether any materially false or misleading statements were made and/or Defendants omitted material facts necessary to make statements made, in light of the circumstances under which they were made, not misleading; and

(c) To what extent the members of the Class have sustained damages and the proper measure of damages.

29. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, because the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to pursue individual redress for the damages caused to them by Defendants' acts. Plaintiff is not aware of any difficulty that will be presented in managing this action as a class action.

SUBSTANTIVE ALLEGATIONS

30. On January 23, 2007 Thornburg Mortgage reported net income before preferred stock dividends for the year ended December 31, 2006, of $297.7 million, or $2.58 per common share, as compared to $282.8 million, or $2.79 per common share for the prior year. For the fourth quarter, net income before preferred stock dividends was $80.3 million, or $0.68 per common share, as compared to $72.8 million, or $0.68 per common share, for the quarter ended December 31, 2005.

31. In this same press release dated January 23, 2007, defendant Thornburg remarked and praised the Company's unique business model and strategy. Defendant Thornburg was quoted as stating:

> While 2006 was a challenging year for the mortgage industry as a whole, Thornburg Mortgage once again proved the strength of our exceptional business model. Our strategy has always been to maintain a focus on only originating and/or acquiring excellent credit quality adjustable-rate mortgage (ARM) assets, hedging our borrowings to offset interest rate fluctuations, and utilizing an array of asset acquisition, financing and capital strategies. As a result, our 2006 performance was solid and we sustained the dividend. Looking ahead, the likelihood that we can maintain the current dividend has improved as our fourth quarter results increased our undistributed taxable income. Presently, based on common shares outstanding, we have an estimated $0.22 per share of undistributed taxable income, some of which could be used to support the current quarterly dividend of $0.68 per share."

32. In addition, defendant Goldstone remarked:

> Our proven and efficient operating model, disciplined interest rate risk management practices and strong capital position provided the foundation for another successful year at Thornburg Mortgage. By successfully executing a number of financing and alternative capital raising transactions, we strengthened our balance sheet and sustained our earnings in an environment where our core spread-lending business was impacted by competitive market and interest rate pressures. The completion of collateralized debt obligation (CDO) financings, the issuance of common and preferred stock, and junior subordinated debt, as well as the deployment of some of our excess liquidity, contributed to balance sheet growth and earnings performance during the year.

We were very active in the CDO market in 2006 having completed seven CDO transactions through which we permanently financed $11.3 billion of ARM loans, including a $1.3 billion transaction in the fourth quarter. Because less equity capital is required for these transactions, we can more effectively leverage our existing capital base, creating balance sheet and earnings growth. Collectively, these transactions freed up an estimated $793.3 million of capital, which allowed us to acquire approximately $8.8 billion in additional ARM assets during the year. At December 31, 2006, our CDO financings had reached $18.7 billion, or 38% of our balance sheet financing, which we expect will continue to contribute to our profitability in future quarters.

A relatively strong stock price during the first half of 2006 enabled us to opportunely raise new common equity in the net amount of $241.8 million through our diverse capital-raising programs at an average net price of $26.87 per share. Additionally, we received net proceeds of $113.4 million from preferred stock issuances at an average net price of $24.11 per share, including the issuance of our new Series D Adjusting Rate Cumulative Redeemable Preferred Stock in the fourth quarter, which has an attractive fixed dividend at 7.875% for the first five years. This security, with its appealing dividend yield, as well as our 8% Series C Cumulative Redeemable Preferred Stock, are lower cost alternatives to raising common equity. Earlier in the year, we also successfully raised unsecured debt by issuing $50.0 million of 7.68%, 30-year junior subordinated notes. In 2007, we anticipate continuing to use these lower-cost, long-term capital sources as an alternative to common equity to support future earnings and balance sheet growth.

In 2006, we also benefited from reduced premium amortization as the higher interest rate environment led to slower actual and projected prepayments. Premium amortization in 2006 was $55.8 million, down 40% from $93.5 million in 2005. Going forward, based on the current level of mortgage interest rates and the current composition of our ARM portfolio, our portfolio margin and earnings should continue to benefit from reduced premium amortization in 2007. As a result, our outlook for 2007 remains positive even though we do not anticipate that the operating environment will change materially in the near term.

Adding to our positive outlook is the anticipated earnings benefit we should realize as the interest rates on approximately $7.2 billion of our hybrid ARMs will reset over the next 24 months from an average interest rate of 4.63% to a current market rate. This repricing, when combined with our expectation that prepayment speeds will remain relatively stable, gives us confidence that our earnings expectation in 2007 will likely be at the high end of the range of the current analysts' estimates as polled by First Call, which are between $2.00 and $2.40 per share, and will likely exceed the current average estimate for 2008 of $2.37 per share.

33. In the January 23, 2007 press release defendant Badal commented on the mortgage origination program as follows:

> Loan originations totaled $5.6 billion in 2006, not only exceeding our 2005 production by 13%, but also our annual target by 2%. Our results sharply contrast with the Mortgage Bankers (MBA) projection that the industry's overall origination activity would drop by 17% in 2006. Our loan originations in the fourth quarter totaled $1.3 billion and origination volumes remain stable with $680.3 million of loans in the fallout-adjusted pipeline at December 31, 2006, most of which we expect will close in the first quarter of 2007."
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> While the MBA is projecting a 5% decline in total mortgage originations in 2007, we anticipate that our unique approach to loan originations - with our focus on providing jumbo and super-jumbo ARM loans to affluent borrowers with superior credit directly and through our lending partners - will allow us to continue to gain market share. In 2007, we anticipate that our innovative lending activities will not only allow us to expand and enhance our lending partner network, but also build and retain long-term relationships with our current client base. Our goal is to originate $6.8 billion in mortgage loans in 2007, a 21% increase over 2006.
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> This year alone, our correspondent relationships grew by 33% and we now have 282 correspondent partners approved to originate loans that meet our pricing and underwriting specifications. And because we are known for our specialized focus on jumbo and super-jumbo ARM loans, our average correspondent loan size was over four times the national average in 2006 or $817,812, up 22% from 2005. Based on the latest mortgage origination statistics, we are the nation's 18th largest correspondent lender.
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> Our recently launched wholesale channel has also seen a great deal of momentum owing to our unique lending platform that combines innovative products with exceptional service. We now have twelve account executives in six targeted geographic regions supporting 234 brokerage firms with 2,083 loan officer relationships. We continue to believe this channel will provide an attractive source of higher yielding loans. In 2007, we anticipate that 25% of our loan origination activity will be generated by this channel.
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> We have also seen positive results with our retention and referral programs. Not only has our client base grown 30% over the last year - we now service $12.0 billion of loans for 20,637 customers nationwide - but our Thornburg Mortgage Exchange Program(SM) and Refuse to Lose(SM) campaign have had a positive impact on our direct retail production and retention of current customers. These proactive campaigns target our clients who are likely to enter into another mortgage transaction and offer them common-sense underwriting and innovative and flexible home loan products and solutions, thereby allowing us to capture a higher return on equity on their continuing business. In fact, in 2006, we modified

> $573.8 million of loans and preserved our lending relationships with 1,141 of our current customers.

34. As to the credit quality of the company's originated and bulk purchased loans the Company stated that these "remained exceptional". The January 23, 2007 press stated that "at December 31, 2006, the company's 60-day plus delinquent loans and real-estate owned properties were 0.11% of its $23.2 billion portfolio of securitized and unsecuritized loans, up from 0.06% at September 30, 2006, but still significantly below the industry's conventional prime ARM loan delinquency ratio of 1.01%. At December 31, 2006, the allowance for loan losses totaled $13.9 million, which management believes is an appropriate allowance level given the exemplary characteristics of the company's loan portfolio. The company did not realize a loan loss during the fourth quarter

35. On March 12, 2007, Thornburg Mortgage announced today that Mark Plasters has been named executive vice president and national sales manager for the company's growing mortgage origination channels. The press release stated:

> In this newly created role, Plasters will head the national expansion effort of Thornburg Mortgage's origination sales network. His primary responsibility will be to facilitate growth on the origination side of Thornburg Mortgage's business, ensuring that our correspondent and wholesale channels receive the sales and marketing support they need in order to effectively expand.
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> In 2006, Thornburg Mortgage achieved annual mortgage originations of $5.6 billion, which was an increase of 13% year-over-year," said Thornburg Mortgage Senior Executive Vice President and Chief Lending Officer Joseph Badal. "In this phase of our development, we believe that hiring industry veterans will be a key factor in our ability to continue to fuel origination growth. Mark's extensive experience and senior level contacts throughout the mortgage banking industry should allow us to maximize our potential for origination growth. By adding him to our team, we're gaining a talented professional who will not only facilitate continued growth, but also ensure Thornburg Mortgage continues to maintain its responsible and disciplined approach to mortgage lending.

36. On May 4, 2007,Thornburg Mortgage announced that it priced a follow-on offering of 4,500,000 shares of common stock at $27.05 per share. Gross proceeds from the transaction were $121.7 million and will be primarily used to fund adjustable-rate loans originated by the company and to purchase additional adjustable-rate mortgage securities. The aggregate net proceeds to the company are estimated to be approximately $116.4 million taking into account costs of issuance.

37. On April 19, 2007, Thornburg Mortgage reported net income before preferred stock dividends for the quarter ended March 31, 2007, of $75.0 million, or $0.62 per common share, as compared to $72.4 million, or $0.66 per common share for the prior year. Taxable earnings for the quarter are estimated to be $0.64 per common share. Citing Thornburg Mortgage's business strategies, the press release proclaimed a better that anticipated start to the new fiscal year. The press release reported as follows:

> Simultaneous with the earnings announcement, the company's Board of Directors declared a first quarter dividend of $0.68 per common share, payable on May 15, 2007, to shareholders of record on May 4, 2007. The ex-dividend date is May 2, 2007. This dividend is unchanged from both the year-earlier period and the fourth quarter of 2006.
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> Garrett Thornburg, the Company's chairman and chief executive officer, remarked, "The year 2007 is off to a better start than we had anticipated. Our disciplined approach to interest rate and credit risk management continues to allow us to report earnings above consensus earnings estimates. We anticipate that we will further benefit from the troubles in the mortgage lending industry as credit standards tighten and investment returns on new mortgage assets improve. As a result, our first quarter earnings were solid and we sustained the dividend. And, as we look ahead we are increasingly confident that we may not need to make a downward adjustment in the current dividend rate in 2007. After payment of the first quarter dividend, we will have an estimated $0.11 per share of undistributed taxable income to support future quarterly dividends."
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> Larry Goldstone, the company's president and chief operating officer, remarked, "Our utilization of capital and financing strategies, continued slow mortgage prepayment activity, continued exceptional credit performance and improving profitability on new mortgage asset acquisitions provided the foundation for

another successful quarter at Thornburg Mortgage. In successfully executing a number of financing and alternative capital raising transactions, we maintained the strength and liquidity of our balance sheet and benefited our earnings despite an environment in which our core spread-lending business had historically been stressed by competitive market and interest rate pressures. During the quarter, we completed another collateralized mortgage debt transaction through which we permanently financed $1.5 billion of ARM loans. Because of the reduced capital requirement related to these transactions, we had the ability to employ $101.9 million of freed-up capital to support the acquisition of $1.1 billion in additional ARM assets. At March 31, 2007, the balance of our collateralized mortgage debt financing had reached $19.2 billion, accounting for 37% of our balance sheet financing, which we expect will continue to contribute to our earnings in future quarters."

Mr. Goldstone added, "We also issued a modest amount of common stock during the quarter, raising a net amount of $46.1 million through our diverse capital-raising programs at an average net price of $25.52 per share. Additionally, we received net proceeds of $18.1 million from preferred stock issuances at an average net price of $24.63 per share."

Mr. Goldstone continued, "In the first quarter, we benefited from wider spreads on new prime quality mortgage assets caused by credit concerns concentrated in the subprime and Alt A segments of the mortgage market, and also from reduced premium amortization as the current interest rate environment led to continued slower-than-projected prepayments. Premium amortization in the first quarter was $7.9 million, down 62% from $20.7 million in the first quarter of 2006. Going forward, and based on the current level of prepayment rates, yield curve shape and the improved market for new ARM assets, our portfolio margin and earnings should continue to benefit from better spreads and reduced premium amortization. As a result, our outlook for 2007 and 2008 continues to improve."

Mr. Goldstone concluded, "Adding to our positive outlook is the anticipated earnings benefit we should realize as the interest rates on approximately $6.7 billion of our hybrid ARMs contractually reset over the next 21 months from an average interest rate of 4.63% to a current market rate. As these seasoned hybrid ARM assets either reprice, refinance or pay off, our earnings will improve as we are funding many of these assets at negative portfolio margins today. Taking all of these factors together, we are increasingly confident that our earnings expectation in 2007 will exceed the high end of the range of the analysts' current estimates as polled by First Call, which are between $2.25 and $2.40 per share, and appears likely to exceed the current dividend level in 2008."

Origination Activity

Commenting on the mortgage origination program, Joseph Badal, senior executive vice president and chief lending officer, said, "Loan originations totaled

$1.7 billion in the first quarter, an increase of 20% over the year-ago period and 34% over the previous quarter. Our results sharply contrast with the current Mortgage Bankers Association's (MBA) projection that the industry's overall origination activity in 2007 will drop by 9%. Our origination volumes are expected to remain strong with $810.2 million of loans in the fallout-adjusted pipeline at March 31, 2007, most of which we expect will close in the second quarter of 2007."

Mr. Badal added, "While the MBA is projecting a 9% decline in total mortgage originations in 2007, we anticipate that our service oriented, common-sense approach to loan underwriting - with our focus on providing jumbo and super-jumbo ARM loans to borrowers with superior credit will allow us to continue to gain market share. Further, recent credit problems in the mortgage lending industry are resulting in tighter credit lending practices industry-wide, which we believe will improve our relative competitive position as we sustain our high-level standards while most other lenders have to tighten their standards. In 2007, we anticipate that our innovative lending activities and improved competitive position will allow us to expand our lending partner network and grow our client base. Our goal is to originate $6.8 billion in mortgage loans in 2007, a 21% increase over 2006."

Mr. Badal explained, "During the quarter, our correspondent lending partners grew by 6% to 298 relationships. For loans originated in the quarter our average correspondent loan size was over five times the national average in the first quarter of 2007 or $984,188, up 20% from year end 2006. Based on the latest mortgage origination statistics, we are the nation's 21st largest correspondent lender."

Mr. Badal continued, "Our recently launched wholesale channel continues to gain momentum owing to our ability to provide innovative products and exceptional service to the mortgage broker community. We now have twenty account executives in five targeted geographic regions supporting 411 brokerage firms with 3,862 loan officer relationships. We continue to believe this channel will provide a growing source of higher yielding loans and new customer relationships. In 2007, we anticipate that 25% of our loan origination activity will be generated by this channel."

Mr. Badal concluded, "We have also seen positive results with our retention and referral programs. Not only has our client base grown 29% over the last year - we now service $12.9 billion of loans for 21,273 customers nationwide - but our Thornburg Mortgage Exchange Program(SM) and Refuse to Lose(SM) campaign have had a positive impact on our direct retail production and retention of current customers. These proactive campaigns target our clients who are likely to enter into another mortgage transaction and offer convenient mortgage options to allow us to retain and grow our relationships with them. In the first quarter, we

exchanged $175.1 million of loans, thereby continuing our lending relationship with 274 of our current customers."

The credit quality of the company's originated and bulk purchased loans remains exceptional and shows no signs of deteriorating. At March 31, 2007, the company's 60-plus delinquent loans and real-estate owned properties were 0.11% of its $24.1 billion portfolio of securitized and unsecuritized loans, unchanged from December 31, 2006, and still significantly below the comparable industry conventional prime ARM loan delinquency ratio of 2.14%. At March 31, 2007, the allowance for loan losses totaled $14.8 million, or 53.9% of seriously delinquent loans, which management believes is an appropriate allowance level given the characteristics of the company's loan portfolio. The company did not realize a loan loss during the first quarter.

First Quarter Results

In the first quarter, net income earned before preferred stock dividends was $75.0 million, up 4% from $72.4 million a year ago. Net interest income was $90.7 million compared to $88.6 million, or 2% greater than a year ago. Return on equity for the first quarter was 13.1% compared to 13.3% for the year ago period. For the quarter, operating expenses as a percentage of average assets, decreased to 0.20% at March 31, 2007, from 0.24% at March 31, 2006, which helped support earnings and are amongst the lowest in the industry. Book value was $18.76 per share, down 11% from $21.00 a year ago, principally as a result of the change in Other Comprehensive Income on a year-over-year basis. The reason for the decline in book value is partially explained by the disproportionate amount of assets and hedging transactions whose market values are being reflected in Other Comprehensive Income as well as the impact of widening spreads on mortgage assets relative to our hedged funding costs.

The portfolio yield during the first quarter declined modestly to 5.43% from 5.45% in the prior quarter. The company's average cost of funds increased to 4.93% in the first quarter from 4.88% in the prior quarter. This resulted in an average portfolio margin of 0.68% for the quarter, which was down slightly from 0.70% from the prior quarter, but comparable to the past three quarters. Premium amortization for the quarter was $7.9 million versus $4.8 million in the prior quarter and $20.7 million a year ago. Prepayment speeds continued to be slower than we had expected during the quarter and we reduced our expected prepayments for the next two months to reflect continued slow prepayment activity. For the quarter ended March 31, 2007, the quarterly Constant Prepayment Rate (CPR) averaged 15.0% CPR, up slightly from 14.0% CPR in the previous quarter and 14.7% CPR a year ago, as compared to the average 25.5% CPR projected over the remaining life of the portfolio.

Clarence Simmons, senior executive vice president and chief financial officer, commented, "Our earnings benefited from two additional factors in the first

> quarter. First, we sold $1.3 billion of higher premium adjustable-rate mortgage-backed securities for a gain of $1.8 million. Additionally, strong loan origination activity resulted in a $6.7 million market value gain on our pipeline of mortgage loan commitments and offsetting pipeline hedging transactions due to the effective management of our mortgage loan pipeline."
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> Mr. Simmons continued, "We continue to manage our portfolio in order to protect ourselves from a possible resumption of short-term rate increases by the Federal Reserve or a rise in longer term interest rates should the yield curve steepen. Accordingly, the addition of $6.5 billion of net new swap agreements, a $2.8 billion reduction of forward starting swap agreements, and the sale of $1.3 billion of ARM assets adjusted our portfolio duration at quarter end to negative two months from zero at December 31, 2006."
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> Mr. Simmons concluded, "During the quarter, we acquired or originated $5.6 billion of new mortgage assets and generated $2.1 billion of net portfolio growth, ending the quarter with consolidated assets of $55.2 billion. At quarter end, the unamortized cost basis at which we held our ARM assets was 100.7%, unchanged from the prior quarter, and still favorably positioning our asset portfolio should refinance activity pick up."
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> The company remains committed to preserving strong asset quality. At March 31, 2007, ARM assets rated "AAA" or "AA" comprised 95.3% of the ARM portfolio. AAA- and AA-rated purchased ARM securities represented 42.3% of ARM assets. Another 41.2% represented "A quality" loans that the company has securitized into AAA- or AA-rated securities. Purchased securitized loans, which represent securities where the company has purchased 100% of the securitized mortgage loans from other sellers, comprised 11.8% of ARM assets. The company has retained the credit risk associated with the ownership of these purchased securitized loans and has an allowance for loan losses in the form of a non-accretable discount of $15.1 million, or 0.23% of the balance of these securities.

38. On May 8, 2007, Thornburg Mortgage announced that Michael McMinn has been named national broker sales executive for the company's recently developed broker origination channel. The press release stated.

> In this role, McMinn will head the national expansion effort of Thornburg Mortgage's broker sales network. His primary responsibility will be the development of Thornburg Mortgage's broker sales channel, including hiring and managing experienced personnel in key markets, assisting sales personnel in establishing relationships with quality brokers, assisting in the expansion of the company's operations department, and ensuring the acquisition of high-quality assets.

> Thornburg Mortgage has a disciplined approach to our expansion into wholesale originations and we are targeting the same high-credit quality, prime-lending partners as we have done in our successful correspondent lending channel. With our originations up 20% already in the first quarter of 2007, we believe that the wholesale channel has significant growth implications for the company," said Thornburg Mortgage Senior Executive Vice President Joseph Badal. "We are thrilled to announce the addition of Michael McMinn to the Thornburg Mortgage team. His extensive experience and senior level, prime-market lending contacts throughout the mortgage banking world will allow us to maximize our potential for steady and quality origination growth through our developing wholesale channel.

39. On June 11, 2007,Thornburg Mortgage announced the launch of an underwritten public offering of 2,000,000 shares of Series E Cumulative Convertible Redeemable Preferred Stock at $25.00 per share. The dividend rate and conversion price terms will be established at the time of sale. The dividend will equal the dividend rate, plus the product of the excess, if any, over $0.68 of the quarterly cash dividend paid on common stock and the conversion rate then in effect.

40. On June 15, 2007, Thornburg Mortgage announced that it priced an underwritten public offering of 2,750,000 shares of 7.50% Series E Cumulative Convertible Redeemable Preferred Stock at $25.00 per share. The base dividend will be 7.50%, plus the product of the excess, if any, over $0.68 of the quarterly cash dividend paid on each share of common stock and the conversion rate then in effect. Additionally, the shares are convertible into common stock at the option of the holder at any time at an initial conversion price of $32.37 per common share. Gross proceeds from the transaction were $68.8 million and will be primarily used to finance the acquisition or origination of additional adjustable-rate mortgage assets and for working capital. The aggregate net proceeds to the company are estimated to be approximately $66.2 million taking into account costs of issuance. The company has also granted the underwriters an option

to purchase up to 412,500 additional shares from the company for the purpose of covering over-allotments, if any.

41. On July 19, 2007 Thornburg Mortgage reported net income before preferred stock dividends for the second quarter ended June 30, 2007 of $83.4 million, or $0.66 per common share, as compared to $69.7 million, or $0.61 per common share for the same period in the prior year. Taxable earnings for the quarter are estimated to be $0.65 per common share. Based upon these earnings and Thornburg Mortgage's supposed unique business strategies, the press release went on to claim that earnings for the following quarter would exceed the high end of analyst expectations. The press release reported as follows:

> Simultaneous with the earnings announcement, the company's Board of Directors declared a second quarter dividend of $0.68 per common share, payable on August 15, 2007 to shareholders of record on August 3, 2007. The ex-dividend date is August 1, 2007. This dividend is unchanged from both the year-earlier period and the first quarter of 2007. After payment of the second quarter dividend, we will have an estimated $0.05 per share of undistributed taxable income to support the dividend in the future. The $0.06 per share decrease in undistributed taxable income from the prior quarter is a result of the current quarter's dividend exceeding the current quarter's taxable earnings by $0.03 per share and an increase in the number of common shares outstanding which also had an impact of $0.03 per share.
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> Garrett Thornburg, the company's chairman and chief executive officer, remarked, "The second quarter continued the strong earnings trend that we set in the first quarter. For the second quarter in a row, our earnings were above consensus estimates on the strength of improved margins. And, despite all the headline news regarding credit problems in the mortgage lending industry, the credit performance of our prime quality mortgage loan portfolio remained exceptional because of our unwavering focus on high quality lending practices. As a result, our second quarter earnings remained solid and we maintained our dividend at $0.68 per common share."
>
> Larry Goldstone, the company's president and chief operating officer, remarked, "Our earnings results in the second quarter benefited from a combination of factors including our utilization of new capital and additional financing strategies, slower mortgage prepayment expectations, improved profitability on new mortgage asset acquisitions and continued exceptional credit performance, which provided the foundation for another successful quarter at Thornburg Mortgage.

During the quarter, we completed another collateralized mortgage debt transaction through which we permanently financed $1.3 billion of ARM loans. Because of the reduced capital requirement related to such transactions, we were able to employ $91.9 million of freed-up capital to support the acquisition of $1.0 billion in additional ARM assets. At June 30, 2007, the balance of our collateralized mortgage debt financing had reached $19.3 billion, accounting for 35% of our balance sheet financing, which we expect will continue to contribute to our earnings in future quarters."

Mr. Goldstone added, "A relatively strong common stock price during the second quarter allowed us to opportunistically issue new common equity through our diverse capital-raising programs. We received net proceeds of $189.0 million from these equity issuances at an average net price of $26.12 per share. These issuances are a powerful tool to increase book value and earnings given we issued these shares at 1.3x our book value."

"We issued a new 7.50% Series E Cumulative Convertible Redeemable Preferred Stock at $25.00 per share. From this new issuance, we received net proceeds of $71.2 million at an average net price of $24.08 per share. When combined with additional issuances of our Series C preferred stock, we received net proceeds of $82.4 million at an average net price of $24.16 per share from total preferred stock issuances. These common and preferred issuances provide another avenue to enhance earnings for common shareholders, strengthen our balance sheet and achieve financing diversification. By successfully executing a number of financing and alternative capital-raising transactions, we enhanced our earnings prospects and strengthened our balance sheet in an environment where our core spread-lending business has been stressed by competitive market and interest rate pressures."

Mr. Goldstone continued, "Additionally, our portfolio yields in the second quarter benefited from wider spreads on new mortgage asset acquisitions caused by credit concerns within the mortgage industry and from reduced premium amortization as the rising interest rate environment during the quarter led to continued slow prepayments and slower projected prepayments going forward. Premium amortization during the second quarter was a $7.3 million benefit, compared to $22.2 million in premium amortization expense in the second quarter of 2006. Going forward, and based on the current level of prepayment rates, yield curve shape and the improved market for new ARM assets, we anticipate that our portfolio margin and earnings should continue to benefit from better spreads. We further expect that premium amortization expense will return to a range of $5 million to $10 million per quarter provided interest rates remain at the current level."

Mr. Goldstone continued, "The credit quality of the company's originated and bulk purchased loans remains exceptional. At June 30, 2007, the company's 60-plus day delinquent loans and REO properties were 0.21% of its $24.7 billion

portfolio of securitized and unsecuritized loans, up from 0.11% at March 31, 2007, but still significantly below the comparable industry conventional prime ARM loan 60-plus day delinquency and REO ratio of 2.32%. We increased our loan loss provision for the quarter by $1.4 million. Management believes the resulting allowance for loan losses of $15.7 million at June 30, 2007 is an appropriate allowance level given the high-quality characteristics of the company's loan portfolio. Our portfolio has an average LTV of 67%, which we believe is indicative of our capacity to work out seriously delinquent loans and REO properties without incurring significant losses. We continue to monitor performance in various geographic markets and continue to believe our portfolio is geographically well diversified and not unduly subject to any individual market stresses."

Mr. Goldstone added, "The company recorded its first charge-off in 22 quarters. Although we have not realized any losses, we do expect to ultimately have losses on 9 REO properties based on current appraisals and estimated expenses of disposition. Accordingly, we have reclassified $2.4 million of loans to other assets and recorded $449 thousand in charge-offs to reduce the carrying value of the reclassified REO properties to their net realizable value of $1.9 million. The charge-off does not flow through the income statement as it is taken from the general loan loss reserve. The general reserve is then replenished through the provision for loan losses which does flow through income and which totaled $1.4 million during the second quarter versus $0.9 million in the first quarter."

Mr. Goldstone concluded, "Adding to our positive outlook is the anticipated earnings benefit we should realize as the interest rates on approximately $5.7 billion of our hybrid ARMs contractually reset over the next 18 months from an average interest rate of 4.68% to a current market rate. As these seasoned hybrid ARM assets either reprice, refinance or pay off, our earnings will improve as we are funding many of these assets at negative portfolio margins today. Taking all of these factors together, we are reiterating our belief that our earnings for 2007 will exceed the high end of the range of the current analysts' earnings estimates as polled by First Call, which are between $2.13 and $2.52 per common share. Further, it appears increasingly likely that our earnings in 2008 will exceed the current annual common dividend level of $2.72."

Origination Activity

Commenting on the mortgage origination program, Joseph Badal, senior executive vice president and chief lending officer, said, "Loan originations totaled $1.7 billion in the second quarter, an increase of 21% over the year-ago period. For the six months ended June 30, 2007, we closed $3.5 billion in loans, up 21% from the same period last year. Our results sharply contrast with the current Mortgage Bankers Association's (MBA) projection that the industry's overall origination activity in 2007 will drop by 9%. Our origination volumes are expected to remain strong with $831.5 million of loans in the fallout-adjusted

pipeline at June 30, 2007, most of which we expect will close in the third quarter of 2007."

Mr. Badal added, "While the MBA is projecting a 9% decline in total mortgage originations in 2007, we anticipate that our service-oriented, common-sense approach to loan underwriting - with our focus on providing jumbo and super-jumbo ARM loans to borrowers with superior credit - will allow us to continue to gain market share. Further, recent credit problems in the mortgage lending industry are resulting in tighter credit lending practices industry-wide, which we believe will improve our relative competitive position as we sustain our high-level lending standards while most other lenders have to tighten their standards. In 2007, we anticipate that our innovative lending activities and improved competitive position will allow us to expand our lending partner network and grow our client base. Our goal is to originate $6.8 billion in mortgage loans in 2007, a 21% increase over 2006."

Mr. Badal explained, "During the quarter, the number of our correspondent lending partners grew by 5% to 313 relationships. Our average correspondent loan size of approximately $984,000 for loans originated in the first half of 2007 was over five times the national average, and up 22% year-over-year, while the credit characteristics of those loans have remained consistent with the superior quality of our loan portfolio. Based on the latest mortgage origination statistics, we are the nation's 18th largest correspondent lender."

Mr. Badal continued, "Our recently launched wholesale channel continues to gain momentum owing to our ability to provide innovative products and exceptional service to the mortgage broker community. We now have twenty-one account executives in five targeted geographic regions supporting 475 brokerage firms. We continue to believe this channel will provide a growing source of higher yielding loans and new customer relationships. In 2007, we anticipate that 25% of our loan origination activity will be generated by this channel."

Mr. Badal concluded, "We have also seen positive results with our retention and referral programs. Not only has our client base grown 31% over the last year - we now service $13.9 billion of loans for 22,044 customers nationwide, but our Thornburg Mortgage Exchange Program(SM) and Refuse to Lose(SM) campaign have had a positive impact on our direct retail production and retention of current customers. These proactive campaigns target our borrowers who are likely to enter into another mortgage transaction and offer convenient mortgage options to allow us to retain and grow our lending relationships with them. In the second quarter, we exchanged $187.6 million worth of loans, thereby continuing our relationship with 324 customers, and in the first half of 2007, we exchanged $362.7 million of loans thereby continuing our lending relationship with 598 of our current customers."

Second Quarter Results

In the second quarter, net income earned before preferred stock dividends was $83.4 million, up 20% from $69.7 million in the year ago period. Net interest income was $102.3 million compared to $80.2 million, or 27% greater than the year ago period. Return on equity for the second quarter was 13.9% compared to 11.6% for the year ago period. Operating expenses as a percentage of assets remained low, 0.19% for the second quarter and the six month period ending June 30, 2007. This was an improvement of 0.02% over the same six month period in 2006, which also helped support current earnings. On a GAAP basis, book value was $19.38 per share, up $0.62 over the end of the first quarter. However, book value declined 9% from $21.27 per share from the year ago period, principally as a result of the change in Accumulated Other Comprehensive Loss on a year-over-year basis. The reason for the decline in book value is partially explained by the disproportionate amount of assets and hedging transactions whose market values are reflected in Other Comprehensive Loss as well as the impact of widening spreads on mortgage assets relative to our Hedging Instruments and funding costs.

The portfolio yield during the second quarter increased to 5.57% from 5.43% in the prior quarter. The company's average cost of funds increased to 5.00% in the second quarter from 4.93% in the prior quarter. This resulted in an average portfolio margin of 0.75% for the quarter, which was up from 0.68% from the prior quarter. There was premium amortization benefit for the quarter of $7.3 million versus premium amortization expense of $7.9 million in the prior quarter and premium amortization expense of $22.2 million for the second quarter of 2006. As mentioned earlier, prepayment speeds continued to be slower than expected during the quarter and the company reduced its expectation of prepayments for the next two months to reflect continued slow prepayment activity. Further, the increase in interest rates during the second quarter resulted in a reduced expectation for prepayments in the future, further contributing to the premium amortization benefit in the quarter. The company continues to see a greater percentage of the hybrid ARM assets surviving the fixed rate period than originally forecasted, suggesting that the amortization methodology remains conservative. It should also be noted that should interest rates remain stable at current levels, premium amortization will likely return to a rate of $5 million to $10 million per quarter. For the quarter ended June 30, 2007, the quarterly Constant Prepayment Rate (CPR) averaged 17.0% CPR before considering modifications, up slightly from 15.0% CPR in the previous quarter and 15.0% CPR in the year ago period. The average CPR projected over the remaining life of the portfolio was 23.5% as of June 30, 2007, down from 25.5% as of March 31, 2007.

Clarence Simmons, senior executive vice president and chief financial officer, commented, "Our earnings also benefited from two additional factors in the second quarter. First, we sold $312.8 million of higher premium adjustable-rate mortgage-backed securities for a gain of $308 thousand. Additionally, strong loan

> origination activity resulted in a $1.6 million market value gain on our pipeline of mortgage loan commitments and offsetting pipeline hedging transactions due to the effective management of our mortgage loan pipeline."
>
> Mr. Simmons continued, "We continue to manage our portfolio in order to protect ourselves from a possible resumption of short-term interest rate increases by the Federal Reserve or a rise in longer term interest rates should the yield curve steepen further. Accordingly, the addition of $3.0 billion of net new swap agreements and a $3.2 billion reduction of forward starting swap agreements in conjunction with the changes in interest rates experienced in the second quarter adjusted our portfolio duration at quarter end to one and a half months from negative two months at March 31, 2007."
>
> Mr. Simmons concluded, "During the quarter, we acquired or originated $6.2 billion of new mortgage assets and generated $2.9 billion of net portfolio growth, ending the quarter with consolidated assets of $57.5 billion. At quarter end, the unamortized cost basis at which we held our ARM assets was 100.77%, up from 100.75% in the prior quarter, and still favorably positioning our asset portfolio should refinance activity pick up."

42. On August 14, 2007, Thornburg Mortgage announced that its Board of Directors has rescheduled the payment date of the company's second quarter common dividend of $0.68 per share to September 17, 2007. By September 17, the company will receive its scheduled monthly mortgage payments for August and will have had more opportunity to manage through this difficult environment. The dividend was originally scheduled to be paid on August 15, 2007 to shareholders of record on August 3, 2007, as previously noted in the company's second quarter earnings announcement on July 19, 2007. The press release reported as follows:

> The Board of Directors said it took this action in response to significant disruptions in the mortgage market which resulted in the sudden and unprecedented decline in the market prices of its AAA-rated mortgage securities that began on August 9, 2007 and subsequent increase in margin calls related to its repurchase agreement financings on those securities. There have also been disruptions in the company's ability to fund its mortgage assets in the commercial paper and the asset-backed securities markets. To date, the company has successfully met all of its commercial paper obligations. Finally, the company has also experienced delays in its ability to fund mortgage loans to its lending partners.

Commenting on the Board's decision, Larry Goldstone, the company's president and chief operating officer, said, "After extensive deliberation, and acknowledging the severity of the situation, the Board determined that the best way to preserve shareholder value in the near term and grow it over time is to retain our cash to enhance our ability to work with our lenders and weather this tumultuous environment. We will continue to monitor the situation."

Mr. Goldstone continued, "After careful analysis of the current value of our mortgage securities portfolio, we believe that our book value, which includes recent changes in the market value of our mortgage securities and liabilities is $14.28 per share as of August 13, 2007 versus $19.38 per share as of June 30, 2007. The majority of that book value decline has occurred over the past week, and is not a reflection of a change in the credit quality of our mortgage assets. As such, and barring substantial additional decline in the market value of mortgage-backed securities, we will continue to originate and invest in high-quality mortgage assets once we get through this environment. While this market event represents a disappointing setback for us and our shareholders, we will rebuild when the environment stabilizes."

"Thornburg Mortgage has successfully managed through challenging market environments in the past, and we are applying our experience to preserve as much shareholder value as we can. We are exploring a variety of strategies to help preserve shareholder value, including the opportunistic sale of our mortgage assets. Despite the uncertainty of the current market environment, we believe that the future profitability of the mortgage business is likely to be far superior to what we've experienced over the last several years, as this environment has eliminated substantial market competition from numerous mortgage originators and investors. As evidence of our confidence in the long-term success of the company, management has purchased over 500,000 shares over the past three weeks. Nonetheless, the company remains affected by the industry-wide liquidity squeeze, and unfortunately, we cannot predict when stability and rational behavior will be restored in the mortgage markets."

Mr. Goldstone continued, "Our credit quality is among the highest in the industry, our assets among the most liquid of any financial institution, and our client orientation is without parallel in the mortgage industry. We take great pride in the integrity with which we operate, we have developed a strong mortgage lending franchise, and we fully expect to emerge from this unprecedented environment well positioned to continue building on our strengths as a lean, nimble operating company that benefits all of our constituents.

43. On August 20, 2007, Thornburg Mortgage announced the sale of a substantial portion of its AAA-rated mortgage securities portfolio and a significant reduction in its borrowings portfolio. The company took these actions to address challenges in meeting its

liquidity and financing needs caused by rapidly declining mortgage securities prices and simultaneous declines in the value of its hedging instruments. These rapid declines negatively impacted the company's ability to continue to support its borrowings collateralized by its high quality mortgage securities portfolio. The press release further reported:

> As a result of these unprecedented conditions in the mortgage financing market, Thornburg Mortgage undertook the following aggressive portfolio management actions over the past six business days:
>
> the sale of approximately $20.5 billion of primarily AAA-rated MBS (mortgage-backed securities), underscoring the salability of the company's high credit quality portfolio;
>
> the sale resulted in the reduction of its mortgage asset portfolio from $56.4 billion at June 30, 2007 to approximately $36.4 billion at August 17, 2007; its reverse repurchase and commercial paper borrowings from $32.9 billion at June 30, 2007 to approximately $12.4 billion at August 17, 2007; and its future exposure to margin calls on its short-term borrowings;
>
> the termination of approximately $41.1 billion of interest rate hedging instruments, thereby reducing the company's exposure to market value changes related to its hedging portfolio.
>
> Because of these actions to stabilize the company's ability to meet its financing obligations and continue its mortgage portfolio lending operation, the company estimates it will realize an approximate capital loss of $930 million as a result of mortgage securities sales for the quarter ending September 30, 2007. Of this total, $700 million was already reflected as an accumulated comprehensive loss on the company's consolidated balance sheet at June 30, 2007. Further, as a result of the termination of its interest rate hedging instruments, the company realized a net gain of approximately $40 million, the majority of which will be capitalized and realized over the remaining life of those hedging instruments as required by FAS133.
>
> In light of the dramatic reduction in the company's mortgage portfolio over the past week, the company is not yet prepared to offer earnings or dividend guidance regarding the amount of any future dividends beyond the September 17, 2007 distribution that has already been declared. However, the company did sell most of its lowest yielding and negative spread assets as part of these asset sales and expects to remain profitable on an operating basis in the third quarter. Further, the company believes that mortgage yields have improved to at least 1.25% over its cost of funding new mortgage assets, which indicates an expected improvement in

its portfolio margin going forward as compared to its reported margins over the past year. Finally, the company is not yet in a position to comment on any additional tax implications of these portfolio actions.

The company's GAAP book value, which includes recent changes in the market value of its mortgage securities portfolio and hedging instruments, continued to decline over the course of the previous week as mortgage market conditions continued to deteriorate and as actual mortgage securities sales were completed by the company. The company's GAAP book value is estimated to be $12.40 as of August 17, 2007, which includes an estimated unrealized market value loss of $2.42 per share as reflected as an accumulated comprehensive loss, compared to $14.28 per share estimate as of August 13, 2007, and $19.38 per share estimate as of June 30, 2007. The further decline in book value is reflective of the continued mortgage market deterioration as well as the market impact of the aggressive sale activities of the company in recent days, not a change in the credit quality of the company's mortgage assets. At present, 93.7% of the company's real estate assets are rated AA or AAA and its 60-day plus delinquent loans increased by only 2 basis points between June 30 and July 31, to 0.23% from 0.21% -- or 79 delinquent loans out of approximately 38,000 loans in its portfolio -- as compared to the national average of 2.32% as of March 31, 2007 as reported by the Mortgage Bankers Association for prime adjustable rate mortgage originators.

44. In reaction to these shocking disclosures, Thornburg Mortgage's stock dropped to $14.28 from $21.23 per share on August 9, 2007.

45. The above statements of the Company alleged herein in above were materially false and misleading because Defendants failed to disclose: (1) that the Company's unique business model and successful business strategies where neither unique nor successful and would not shield it from the turmoil brewing in the mortgage market; (2) that Thornburg Mortgage was suffering from significant liquidity problems; and (3) that if Thornburg Mortgage failed to make payments on its loans and financing instruments, the Company would be forced to sell its top rated mortgage securities; and (4) as a result the foregoing, Thornburg Mortgage's projected earnings for fiscal 2007 were inaccurate and its reported financial results were overstated.

46. The market for Thornburg Mortgage's common stock was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements

and failures to disclose, Thornburg Mortgage's publicly issued securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired Thornburg Mortgage's securities relying upon the integrity of the market price of Thornburg Mortgage's securities and market information relating to Thornburg Mortgage, and have been damaged thereby.

47. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false or misleading statements about Thornburg Mortgage's financial well-being, business relationships, and prospects. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Thornburg Mortgage and its financial well-being, business relationships, and prospects, thus causing the Company's publicly-issued securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements made during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein.

LOSS CAUSATION

48. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

49. During the Class Period, Plaintiff and the Class purchased securities of Thornburg Mortgage at artificially inflated prices and were damaged thereby. The price of Thornburg Mortgage's securities significantly declined when the misrepresentations made to the market,

and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

SCIENTER ALLEGATIONS

50. As alleged herein, Defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their positions and responsibilities within the Company made them privy to confidential proprietary information concerning the true facts regarding Thornburg Mortgage and their control over Thornburg Mortgage's allegedly materially misleading misstatements, participated in the wrongdoing alleged herein.

APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET DOCTRINE

51. At all relevant times, the market for Thornburg Mortgage's publicly issued securities was an efficient market for the following reasons, among others:

(a) Thornburg Mortgage's publicly-listed securities met the requirements for listing, and were listed and actively traded on the NYSE, a highly efficient and automated market;

(b) As a regulated issuer, Thornburg Mortgage filed periodic public reports with the SEC and the NYSE;

(c) Thornburg Mortgage regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) Thornburg Mortgage was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

52. As a result of the foregoing, the market for Thornburg Mortgage's common stock promptly digested current information regarding Thornburg Mortgage from all publicly-available sources and reflected such information in Thornburg Mortgage's stock price. Under these circumstances, all purchasers of Thornburg Mortgage's common stock during the Class Period suffered similar injury through their purchase of Thornburg Mortgage's common stock at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

53. The statutory safe harbor provided for forward-looking statements made under certain circumstances does not apply to any of the allegedly false statements plead in this Complaint. Many of the specific statements plead herein were not identified as "forward-looking statements" when made. To the extent that there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking

statements plead herein, defendants are liable for those forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Thornburg Mortgage who knew that those statements were false when made.

COUNT I

(For Violation of § 10(b) of the 1934 Act and Rule 10b-5 Against All Defendants)

54. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

55. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

56. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) Employed devices, schemes, and artifices to defraud;

(b) Made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) Engaged in acts, practices, and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Thornburg Mortgage publicly traded securities during the Class Period.

57. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Thornburg Mortgage publicly traded

securities. Plaintiff and the Class would not have purchased Thornburg Mortgage publicly traded securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

58. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of Thornburg Mortgage publicly traded securities stock during the Class Period.

COUNT IV

(For Violation of § 20(a) of the 1934 Act Against All Defendants)

59. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

60. The Individual Defendants were controlling persons of Thornburg Mortgage within the meaning of § 20(a) of the 1934 Act. By reason of their positions as officers and/or trustees of Thornburg Mortgage, and their ownership of Thornburg Mortgage stock, the Individual Defendants had the power and authority to cause Thornburg Mortgage to engage in the wrongful conduct complained of herein. Thornburg Mortgage controlled each of the Individual Defendants and all of its employees. By reason of such conduct, the Individual Defendants and Thornburg Mortgage are liable pursuant to § 20(a) of the 1934 Act.

JURY TRIAL DEMANDED

61. Plaintiff demands a trial by jury.

WHEREFORE, plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action, certifying Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure, and certifying his counsel as class counsel;

B. Awarding compensatory damages in favor of Plaintiff and the other members of the Class against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, including prejudgment and post-judgment interest thereon;

C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other and further relief as the Court may deem just and proper.

Dated: September 7, 2007

ABBEY SPANIER RODD & ABRAMS, LLP

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Attorneys for Plaintiff

CERTIFICATION OF NAMED PLAINTIFF
PURSUANT TO FEDERAL SECURITIES LAWS

I, DENIS ROY GONSALVES, hereby certify as follows:

1. I have reviewed the proposed complaint to be filed on my behalf in the United States District Court for the Southern District of New York, concerning Thornburg Mortgage, Inc. brought under the federal securities laws, and have authorized the filing of same.

2. Plaintiff did not purchase, or otherwise acquire, the securities of Thornburg Mortgage Inc. that are the subject of this action, at the direction of plaintiff's counsel, or in order to participate in any private action arising under the federal securities laws.

3. I am willing to serve as a representative party on behalf of the class, and will provide testimony at a deposition and/or at trial, if necessary.

4. Plaintiff's transactions in the securities that are the subject of this litigation during the class period set forth in the complaint are, as follows:

a) Plaintiff purchased 300 shares of Thornburg Mortgage Inc. common stock on July 12, 2007 at $ 26.12 per share.

b) Plaintiff sold 300 shares of Thornburg Mortgage Inc. common stock on July 31, 2007 at $ 25.31 per share.

5. During the three years prior to the date hereof, plaintiff has not filed an action in which he has sought to serve, or has served, as a representative party for a class in any action filed under the federal securities laws.

6. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond his pro rata share of any recovery, or as ordered or approved by the Court, including the award to a representative of reasonable costs and expenses (including lost

wages) directly relating to the representation of the class.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief. Executed this 31st day of August , 2007 at Glen Head , New York.

DENIS ROY GONSALVES